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A SOLUTION  
OF THE  
CANADIAN RAILWAY  
PROBLEM



SUGGESTED BY  
SIR THOMAS TAIT  
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The Dominion of Canada at the present time owns or controls and operates a railway system, the main lines of which extend from Sydney, Halifax and St. John on the Atlantic seaboard to Quebec and Montreal, and from Quebec to Fort William and Winnipeg, and there is, therefore, to-day in Canada the administration by the State of about 4,000 miles of railway and competition between Company railways and a State owned and operated railway system extending more than half way across the continent.

In view of certain conditions which, it is to be regretted, prevail in this country and in which there appears no promise of early improvement, the efficient administration along business lines of State railways in Canada by the Government, even by means of a so-called "independent" Board of Commissioners cannot be confidently anticipated. It is generally the experience in democratic countries having State railways that it is impossible to eliminate political influence, exerted if for no other reason than to promote and advance the interests of the political party in power, and, undoubtedly in such countries as the United States and Canada, where political partisanship runs so strong and political patronage has so long been the custom, prudent and efficient management of railways by the State would be found sooner or later to be impracticable owing to political interference and influence.

Competition between State owned and operated railways and Company railways is inequitable and unfair to the private investor in the latter. Money for construction and equipment can, generally speaking, be borrowed or obtained by the State on considerably better terms than by companies, and, therefore, State railways are not expected or required to earn as large a return on their cost as investors in company railways, especially shareholders, look for and should receive. If everything else therefore be equal—an important and improbable proviso—the rates and fares on State railways do not require to be as high as on company railways. Due to the exercise of political influence, rates and fares on State railways are liable to be reduced and indeed as a rule are reduced, and train services and other facilities are provided beyond what the traffic and other conditions warrant, and these lower rates and fares and these unjustified facilities must be conceded by competing company railways if they are to retain their fair share of the traffic.

In view of the possibility, if not the probability, of the Dominion being compelled to take over the Canadian Northern system and the Grand Trunk Pacific Railway from Winnipeg to Prince Rupert with its branch lines, the question arises whether in such event the difficulties and disadvantages of State administration, on the one hand, and the injustice of State competition with private enterprise, on the other hand—both of which will be greatly aggravated and increased should the present State railway system be extended from Winnipeg to the Pacific Coast and throughout our Western Provinces—might not be avoided.

The following is an outline of a scheme whereby both the advantages which may be derived from the ownership of railways by the State and the good results which should accompany efficient administration by a company may be obtained and to these be added the great advantages, including a very large saving in operating expenses, which



would result from all the more important railways of Canada being managed and operated as one great system.

## OUTLINE OF SCHEME

(a) It is assumed that the Dominion can acquire all the common stock of both the Canadian Northern and the Grand Trunk Pacific Companies for possibly a nominal consideration or, having regard to the magnitude of the scheme, for a comparatively small sum.

The Dominion to take over all the assets and assume all the liabilities of the Canadian Northern and the Grand Trunk Pacific systems and to guarantee interest on their bonds and debenture stock—supplemental to and not in cancellation of existing Provincial and other guarantees of such securities.

(b) The Dominion to lease the Canadian Pacific Railway system in perpetuity for a rental equivalent to an agreed annual return on its common stock and to guarantee the payment of all dividends or interest on all the securities of that system which are senior to its common stock and to assume all the liabilities of that company, including all its guarantees on the securities of other railway companies, and the payment of all rentals for which the Canadian Pacific Railway is responsible. The Dominion to take over all the assets of the Canadian Pacific Railway Company, except those which are not closely connected with the operation of its railways and connections, which assets would be transferred to a separate company for the benefit of the Canadian Pacific shareholders. The exclusion of these assets would reduce the rate of dividend on the common stock of the Company to be guaranteed by the Dominion.

(c) The Dominion to lease the Grand Trunk system in perpetuity for a yearly rental equivalent to certain rates of dividends per annum on its preference and common stocks to be agreed upon, and to guarantee the payment of all dividends or interest on all the securities of that system which

are senior to its preference and common stock, and to assume all the liabilities of that company, including all its guarantees on the securities of other railway companies and the payment of all rentals for which the Grand Trunk Company may be responsible. The Dominion to take over all the assets of the Grand Trunk Company.

(d) The five systems, viz., the existing Government system, the Canadian Northern, the Grand Trunk Pacific and the Canadian Pacific and Grand Trunk systems (hereinafter called the ("Whole System")) to be administered for and on behalf of the Dominion, under an agreement with the Dominion, by a company known as the "Canadian Railways Company," to be incorporated and constituted, as follows:

(e) The company to be incorporated as above to have a capital of, say, ten million dollars and a Board of Directors of nine members, hereinafter called the "Board." Fifty-one per cent. of the capital to be subscribed and paid for and to be held by the Dominion, and the balance—forty-nine per cent.—to be subscribed and paid for and to be held exclusively by citizens of Canada.

The Dominion to guarantee five per cent. per annum dividend on the stock of the said company.

Four of the nine directors to be appointed by the Governor-General-in-Council, four by the citizen shareholders of the company, representing forty-nine per cent. of the stock, and the ninth director to be appointed by the Supreme Court of Canada. The directors appointed by the Governor-General-in-Council and by the Supreme Court not to be interested directly or indirectly in the stock of the company.

No corporation, firm or individual to be interested directly or indirectly in more than one hundred shares of the citizens' stock. No stock to be transferred without the consent of the board.

The directors appointed by the Governor-General-in-Council to hold office, one for five years, one for six years,



one for seven years and the fourth for eight years, and to be eligible for re-election—subject, however, to dismissal by the Governor-General-in-Council in the event of misconduct or incapacity, with right of appeal in such case to the Supreme Court of Canada. These four directors to be the most capable railway administrators obtainable—one of them with experience in operating, one of them in traffic, one of them in finance and accounting and the fourth in legal work.

The directors appointed by the citizen shareholders to be elected annually.

The director appointed by the Supreme Council to hold office for ten years and to be eligible for reappointment, subject, however, to dismissal by the Governor-General-in-Council in the event of misconduct or incapacity with right of appeal in such case to the Supreme Court.

Vacancies due to death or resignation to be filled by the Governor-General-in-Council in the case of a director originally appointed by him, in the case of a director appointed by the citizen shareholders by the other three similarly appointed directors until the next annual meeting of the company and by the Supreme Court in the case of the director appointed by it.

The chairman and vice-chairman of the company to be appointed by the Governor-General-in-Council from among the four directors similarly appointed and to hold office for eight and seven years, respectively. The chairman to be the chief executive officer of the company. The vice-chairman to assist the president and to represent him in his absence.

The salaries of the members of the board of directors appointed by the Governor-General-in-Council to be sufficient to secure the best men for the positions and the salaries of the other directors to be such as to make it worth the while of able and reliable men to become members of the board.

The board to control and direct the policy of the com-



pany and to have complete control of the appointment and work of the officers and employees of the company.

In any year in which the net revenue of the whole system is sufficient to pay all the rentals and other charges payable by the Dominion in respect of the whole system, including interest at an agreed rate on the amount invested in the existing Government system and the interest payable on additional capital expenditure (see Clause "f"), all hereinafter called "fixed charges," the chairman and vice-chairman and other members of the board to receive a bonus equivalent to an agreed percentage of their respective annual salaries and the citizen shareholders an agreed increase in their dividend, and in the event of the net revenue exceeding the said fixed charges in any year by a percentage to be fixed, the said members of the board to receive an additional bonus equivalent to an agreed percentage of their respective salaries, and the citizen shareholders to receive an agreed additional increase in their dividend for that year. Maximum salaries for the respective directors and a maximum dividend for the shareholders to be fixed.

(f) The Dominion to finance the whole system including the provision of the funds for new railways, for all additions and improvements to existing lines and for rolling stock and other equipment chargeable to capital account, as may be stated to be required by the board. In the event of a difference of opinion between the board and the Minister of Railways (representing the Dominion) in respect of any of such capital account requirement, the question to be submitted to the authority referred to in Clause "g" for investigation and report—the decision of such authority to be final.

(g) The construction of a new railway not to be undertaken nor any commitment to it given until an investigation and report in regard to it have been made and the report laid on the table of the House by a competent authority— independent of politics — say, a board of three members thoroughly well qualified for the purpose.



(It might be interjected here that a similar procedure should be followed in all cases involving large expenditures or disbursements of public money on or in connection with works, such as new railways, canals, docks and harbours, dredging, important buildings, etc., and the authority above mentioned might also be utilized to investigate and report in regard to such projects. Every Member of Parliament would thus have knowledge based on independent and competent authority as to what he was voting on and the public would know what their representatives in Parliament had voted for.)

(h) Rates and fares and other charges for transportation and other services not to be increased without the approval of the Dominion Board of Railway Commissioners.

Except as hereinafter specified in Clause (i) rates and fares and other charges are not to be reduced without the consent of the board until a substantial Reserve Guarantee Fund has been provided out of Net Revenue (in excess of the fixed charges, bonuses to directors and extra dividends to shareholders) and the net revenue has been sufficient in three successive years to pay all such fixed charges, bonuses to directors and extra dividends to shareholders, and then only to the extent which, based on the average traffic of the said three years, shall represent a reduction in the net revenue equal to the net revenue in excess of the said fixed charges, bonuses and extra dividends.

(i) The Dominion may by Order-in-Council declare a matter (such as a reduction in transportation or other charges for services rendered, or the construction of a new railway) to be one of general policy, and direct the board to give effect to such policy, but in the event of the board not concurring in whole or in part in such direction, the Dominion to reimburse annually to the whole system seventy-five per cent. of the yearly increase in expenditure or of the decrease in revenue of the whole system occasioned by the carrying out of such direction in excess of such in-



crease or decrease as would have been occasioned by the carrying out of such direction to the extent only to which the board concurred in it.

(j) The accounts and books of the company to be continuously audited by an auditor to be appointed by the Governor-General-in-Council, who shall certify to the balance sheet, profit and loss account, and other annual statements of the company.

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The Grand Trunk Company has never paid any dividend on its Common Stock, but it would be necessary under this proposal to guarantee a small dividend on that stock in order to secure the consent of the holders of it to the inclusion of the Grand Trunk system in this scheme. It would also be necessary, in order to avoid legal and other complications and serious delay to guarantee the interest and other fixed charges (not already guaranteed by the Dominion and Provincial Governments) of the Canadian Northern and Grand Trunk Pacific Systems.

The idea which is in mind in providing for bonuses for the chairman, vice-chairman and other members of the board and increased dividends to the citizen shareholders, in the event of certain results in net revenue being obtained, is to make it in their financial interest to efficiently administer the whole system, thus increasing the net revenue. This incentive to efficient management is an important factor in the scheme.

It would be highly desirable to have a large number of representative citizens of the Dominion interested financially and otherwise in the administration of the railways of the Dominion and through the appointment by them of four out of nine directors of the operating company to have a voice in such administration. A scheme can easily be devised by which the citizen stock in the operating company will be equitably distributed and held by all classes of the com-



munity throughout all the Provinces of the Dominion.

The provision and maintenance of a substantial Reserve Guarantee Fund is advisable to avoid possible disarrangement in the Dominion Budget owing to the need of making provision therein to meet any deficit in guarantees, etc., in a year of unfavorable railway results, due, for instance, to a failure or partial failure in the harvest.

What is in mind in Clause (i) is to prevent a deadlock between the Government of the day and the board in the event of the Government considering it desirable in the interest of the public and the country to have effect given to some matter of general policy, which policy in whole or in part is not concurred in by the board (such as, possibly for instance, a reduction in rates.) In such event, the Dominion, representing the public and the country to be benefited, should be willing to sacrifice the larger proportion of the loss in net revenue of the whole system occasioned by giving effect to such policy.

The interests of the public can be safeguarded by preserving the present Board of Railway Commissioners, in whose jurisdiction and authority, however, consequential restrictions and modifications would be necessary if effect were given to this scheme, as, for instance, in the matter of reducing rates and fares. The Board of Railway Commissioners might also be charged with the duty of seeing that the lines, equipment, etc., are maintained in a safe and efficient condition, and that the train and other services are such as the business justified.

Very large economies in operation and maintenance can be effected if the five systems herein included in this scheme are worked as one for the good of the system as a whole. The utilization of the shorter or easier, and therefore cheaper routes for traffic, the taking up or temporary abandonment of useless lines or lines of little value where the public would not be appreciably affected, the ability to use all motive power and rolling stock freely on any part of the whole



system, thus saving much unnecessary movement, especially of freight cars, and obtaining greater service out of such equipment, reductions in train services without appreciable disadvantages to the public by avoiding at present duplicate services, joint instead of separate stations, terminals, offices, etc., with consequent reduction in staff, concentration of work in shops and elsewhere, larger purchases and therefore lower prices of all materials and supplies, etc., etc. The savings which could be effected in these and other directions are so many, and the aggregate would represent such a large amount that they might go a long way towards paying the deficit in the earlier years resulting from the operation of the Canadian Northern, Grand Trunk Pacific and Government systems.

Another advantage in combining all, or most of the railways in one system to be worked for the good of all is that the construction of competing lines would be prevented and that new lines would be so located that the least possible mileage would serve the greatest possible area or population, and that railway subsidies with their evil influences would disappear.

It may be urged as an objection to the foregoing scheme that there would be an absence of competition, but competition between railways as it has existed, has been wasteful and far from efficient in the true sense of that word. As has been mentioned, the Dominion Board of Railway Commissioners can and should be clothed with the necessary authority to safeguard the best interests of the country and its trade, and of the public generally, and to insure the proper maintenance and safe working of the railways and the provision of as good and efficient service of every kind as the business offering and other circumstances justify.

Under this scheme it would not be necessary to raise any large sum of money to purchase any of the railways—a great advantage in these war times.

No matter how independent a board of commissioners



for the administration of State railways may be made by the legislation under which such a board is originally constituted and appointed, the time will surely come, and at no distant day, when the board owing to its very independence will incur the displeasure, if not the hostility of the Government or of Parliament, and when this occurs the independence of the board from political control or interference will surely be taken away or modified by amending legislation. In such a scheme as is here suggested, however, there would be an agreement between the Canadian Railways Company and the Dominion, confirmed by legislation, which could not be interfered with by the Government of the day or by Parliament, even if the inability to use the railways for political purposes be resented. This is an important feature of the scheme.

Eventually, perhaps before many years, lower rates for transportation and other services rendered by the railways would be possible and commercially justified under some such scheme as this than if the railways continued to be administered and operated as separate units—some of them by the State and some of them by companies—or than if combined in one great system, they are administered and managed by the State under a board of commissioners originally intended to be independent of politics.

A scheme can, it is believed, be worked out on some such lines as the foregoing under which all the important railways of Canada can be combined and worked as one great system with enormous savings in working expenses and other beneficial results, under which competition between the State and private enterprise and interference thereby with vested interests can be avoided, and under which there would be the advantage of such efficient and prudent administration of our railways as that of a well managed company.



